

Study of Corporate Officers

Study examined 2003-05 data

In 2006, ESSB 6885 required the Employment Security Department to study and report on “fraud-prevention methods, such as corporate-officer eligibility for unemployment insurance and personal liability of corporate officers for failure to accurately report employee information or pay taxes owed.”

Study parameters

Corporate officers are not required to report their social security numbers when they register with the Secretary of State. Thus, Employment Security usually doesn't know if a corporation's officers have filed for unemployment benefits unless that corporation is audited.

Given a lack of data on corporate officers among all employers, Employment Security chose to study the 7,647 for-profit corporations that were audited from 2003 through 2005. As part of the audits, verified social security numbers were collected for officers of these corporations. Because the following findings are based on a non-scientific sample, they cannot be extrapolated to all employers in Washington population

Most states include officers in unemploy- ment coverage

Key findings

Comparison with other states

- 36 states treat corporate officers as employees. They are automatically covered by unemployment insurance like other workers.
- 14 states have some restrictions on corporate-officer coverage.

Corporate officer claims from audited firms

- 778 claims were filed by 446 distinct corporate officers; 609 were paid.
- 46 percent were from corporations that elected coverage.
- 54 percent were from corporations that had not elected coverage.
 - * 84 percent of these claims were allowed benefits upon appeal to higher authority.
- 37 percent of paid claimants received benefits in more than one year.
- 16 percent listed the last employer as a corporation that had been granted coverage within the previous 45 days.
- In 25 percent of the claims, the claimant was placed on stand-by by his/her employer and, thus, was not required to look for work.
- More than 60 corporations applied for and were granted unemployment coverage for their corporate officers within 45 days before closing their accounts.
- For 21 percent of the claims filed by corporate officers, the benefits were used up.

Most “opted-out” corporate officers awarded benefits upon appeal

**\$5M a year in
uncollectible
unemploy-
ment taxes**

Claims paid for uninsured officers

Corporate officers of corporations that do not elect coverage should not be not covered by unemployment insurance. However, upon appeal to the Office of Administrative Hearings or Superior Court, they are nearly always awarded benefits because:

- The corporation did not request coverage and claims it was unaware of the requirement to elect coverage.
- The corporation did not tell the corporate officer that he/she was not covered.
- The corporation reported and paid taxes on its corporate officers although they did not elect coverage.
- Some corporate officers earned wage credits from other employers.

Administrative effects of corporate officer coverage

- During the study period, an average of \$675,000 was refunded each year to corporations that did not elect coverage but paid taxes on their corporate officers.
- Each year, Employment Security invests five FTEs worth of time (totaling more than \$300,000) on corporate-officer issues.

Additional study topic: uncollectible corporate taxes

On average, more than 1,200 unemployment-tax bills (totaling more than \$5 million) are uncollectible each year. These involve corporations that have no resources to pay and Employment Security has exhausted all collection options that are currently allowed under the law.

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